

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 EB-11 AID-20 IO-14 COME-00 TRSE-00 FEA-02

DRC-01 /137 W

----- 120597

R 111016Z MAY 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 6082

C O N F I D E N T I A L PHNOM PENH 6624

E.O. 11652: GDS

TAGS: EFIN, ENRG, EAID, PINT, CB

SUBJ: POL PRICE INCREASE AND POLITICAL UNREST OVER INFLATION

1. MAY 10 CABINET MEETING WRESTLED FOR THREE HOURS OVER NEW POL PRICES AND A COMPROMISE FULLY ENDORSED BY PRIME MINISTER WAS SUBMITTED FOR APPROVAL TO EXECUTIVE COUNCIL MAY 11. I UNDERSTAND APPROVAL BY THAT BODY IS CERTAIN. MINISTER OF FINANCE, ENCOURAGED BY OUR AID MISSION, PRESENTED STEEP INCREASES FOR ALL FIVE TYPES OF POL PRODUCTS; HE PREVAILED IN FOUR OF THE FIVE CATEGORIES BUT PRIME MINISTER REFUSED TO ACCEDED TO DRASTIC INCREASE IN MOGAS PRICES BECAUSE HE FEARED SERIOUS POLITICAL REPERCUSSIONS. AS DEPT. AWARE, LONG BORET IS UNDER INTENSE ATTACK BY STUDENTS/TEACHERS AND OPPOSITION ELEMENTS FOR HYPERINFLATION AND PRIME MINISTER WISHED TO AVOID FUELING ANTI-GOVERNMENT DEMONSTRATIONS BY 100 PERCENT PRICE INCREASE IN MOGAS AT THIS TIME.

2. FOLLOWING WAS THE POSITION OF THE MINISTER OF FINANCE AND THE PRIME MINISTER ON POL PRICE INCREASES (FOR BASIS OF COMPARISON, CURRENT PRICES ALSO LISTED):

IN RIELS

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## GAS DIESEL

## MOGAS KEROSENE OIL OIL FUEL

CURRENT PRICE	68	38	40	40	23
FINANCE MINISTER'S PROPOSAL	138	73		85	82 55
PRIME MINISTER'S PROPOSAL	100	70		80	80 50

### 3. WITH THE DIFFERENCES BETWEEN THE PRIME MINISTER AND MINISTER OF FINANCE.

LATTER WAS ASKED TO CONTACT

ECONOMIC COUNSELOR TO OBTAIN OUR VIEWS. I CALLED ON PRIME MINISTER YESTERDAY EVENING, WHO QUICKLY INDICATED THAT HE WAS RELUCTANT TO INCREASE MOGAS PRICES TO THE LEVEL RECOMMENDED BY THE MINISTER OF FINANCE BECAUSE HE FEARED IT WAS TOO STEEP A JUMP AT ONE TIME AND WOULD BE GRIST ON THE MILL FOR THE OPPOSITION WHICH IS PLANNING DEMONSTRATIONS AGAINST GOVERNMENT FOR FAILURE CONTAIN HYPERINFLATION. PRIME MINISTER THEREFORE FAVORED A MORE MODEST INCREASE IN MOGAS PRICES BUT SAID HE WAS WILLING TO GO ALONG PRETTY MUCH WITH THE INCREASES IN THE OTHER CATEGORIES OF POL PRODUCTS. HE SAID IF I INSISTED ON THE PRICES RECOMMENDED BY THE MINISTER OF FINANCE, WHICH WERE ALSO THOSE ENDORSED BY THE ECONOMIC EXPERTS AT MY MISSION, HE WOULD SUBMIT THE PROJECT TO THE EXECUTIVE COUNCIL BUT IF THIS FUELED EXISTING POLITICAL UNREST AND LED TO DIFFICULTY FOR HIS GOVERNMENT, IT WOULD NOT SERVE OVER-ALL U.S. POLITICAL INTERESTS. ON THE OTHER HAND HE WAS WILLING TO FULLY ENDORSE AND ACCEPT POLITICAL RESPONSIBILITY FOR THE PRICE INCREASES WHICH HE HAD ACCEPTED.

4. AFTER CONSULTATION WITH THE COUNTRY TEAM I CONCLUDED THAT WE SHOULD ACCEDE TO THE PRIME MINISTER'S PROGRAM. BOTH HE AND HIS HIGHLY COMPETENT MINISTER OF FINANCE HAD BEEN MOST COOPERATIVE WITH US AND HAD ACCPTED OUR ADIVCE ON MOST ISSUES. I THEREFORE THOUGHT IT WAS MORE IMPORTANT TO KEEP THE DYNAMIC PRESENT GOVERNMENT IN POWER THAN DICTATE THE EXACT PRICE LEVEL. I INFORMED THE PRIME MINISTER THAT WE AGREED TO THE

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PRICE INCREASES FOR WHICH HE WAS WILLING TO FIGHT. THIS MORNING THE PRIME MINISTER SUBMITTED HIS PROGRAM TO THE EXECUTIVE COUNCIL AND THE PRICE INCREASES WILL BECOME EFFECTIVE AT ONCE.

5. IN ORDER TO FURTHER RESTRAIN MOGAS CONSUMPTION, THE ECONOMIC COUNSELOR WILL ALSO REDUCE THE AMOUNT OF FOREIGN EXCHANGE FOR MOGAS PROCUREMENT. THE

PRICE INCREASE IN MOGAS AS ACCEPTED BY THE PRIME MINISTER IS SIGNIFICANT: FROM 68 RIELS TO 100 RIELS OR 48 PERCENT. THE PRIME MINISTER ALSO AGREED TO STUDY IN A COUPLE OF MONTHS WHETHER ANOTHER PRICE INCREASE IN MOGAS IS NEEDED.

6. WHILE WE DIDN'T GET EVERYTHING WE WANTED ON THE POL PRICE INCREASES, I STILL BELIEVE IT IS A SIGNIFICANT STEP IN THE RIGHT DIRECTION. THE OVERRIDING CONSIDERATION IS TO KEEP THE PRESENT DYNAMIC GOVERNMENT IN POWER AND NOT TO MAKE ITS TASK MORE DIFFICULT THAN IT ALREADY IS. THE POL PRICE INCREASE IS AN ACCEPTABLE COMPROMISE WHICH GIVES US MOST OF WHAT WE WANT WITHOUT UNDULY ROCKING THE BOAT POLITICALLY.  
DEAN

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NNN

## Message Attributes

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**Channel Indicators:** n/a  
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**Control Number:** n/a  
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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
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